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PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

ANNUAL REPORT 1968

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PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

Directors and Officers

GORDON R. GILLIES, *President*

J. R. SHAW, *Vice-President*

JOHN S. DINNICK

H. B. KEENLEYSIDE, C.B.E.

DOUGLAS J. PEACHER

D. S. PORTER, C.A., *Secretary and Treasurer*

AUDITORS, *Clarkson, Gordon & Co.*

SOLICITORS, *Tory, Tory, DesLauriers & Binnington*

BANKER, *The Bank of Nova Scotia*

TRANSFER AGENT, *National Trust Company, Limited*

REGISTRAR, *Crown Trust Company*

HEAD OFFICE, *91 Gould Street, Toronto 2, Ontario*

ROTOGRAVURE DIVISION, *1150 Islington Ave. North, Rexdale, Ontario*

PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

Financial Highlights

EARNINGS	1968	1967
Sales - - - - -	\$6,495,118	\$5,960,022
Provision for depreciation - - - - -	360,111	327,032
Income taxes - - - - -	314,700	282,500
Net earnings - - - - -	293,486	282,140
Net earnings per share - - - - -	1.68	1.61
Dividends paid - - - - -	140,000	140,000
Dividends paid per share - - - - -	.80	.80
BALANCE SHEET		
Capital expenditures on machinery and equipment - - - - -	\$1,842,280	\$1,179,882
Shareholders' equity - - - - -	3,359,577	3,206,091
Shareholders' equity—per share - - - - -	19.20	18.32

PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

Directors' Report to the Shareholders

Your directors are pleased to submit the annual report of the Company for 1968, together with the financial statements and accompanying auditors' report.

SALES AND EARNINGS In 1968, sales amounted to \$6,495,118 an increase of \$535,096 or 9.0% over 1967. After meeting all charges, including a provision of \$360,111 for depreciation of plant and equipment, and a provision of \$314,700 for income taxes, there remained earnings of \$293,486 or \$1.68 per share compared with \$282,140 or \$1.61 per share for the previous year.

DIVIDENDS Dividends of 40 cents per share were paid March 1, 1968 and September 1, 1968, making a total distribution to shareholders of 80 cents per share or \$140,000.

In our interim financial report covering the first half of 1968, we reported to shareholders that it would be our intention to pay dividends on a quarterly rather than half-yearly basis and that in keeping with this policy it was expected that quarterly dividends would be paid during 1969 in March, June, September and December. Accordingly, a quarterly dividend of 20 cents per share was declared January 28, 1969 payable March 1, 1969.

WORKING CAPITAL As a result of the current expansion programme whereby our printing capacity is being almost doubled, working capital decreased by \$856,032 in 1968, details of which are shown in the statement of Source and Application of Funds. At December 31, 1968 current liabilities exceeded current assets by \$611,244 which was primarily due to the inclusion as a current liability of the revolving bank loan of \$750,000. Further details are given in the notes to the financial statements.

REDEMPTION OF BONDS During the year the Company redeemed the final \$250,000 instalment of its 5¼% first mortgage sinking fund bonds, of the original \$3,500,000 issued in 1954.

EARNINGS EMPLOYED IN THE BUSINESS As at December 31, 1968, earnings employed in the business amounted to \$2,578,073 compared to \$2,424,587 last year.

SHAREHOLDERS' EQUITY Total shareholders' equity amounted to \$3,359,577 equal to \$19.20 per share, compared with \$3,206,091 or \$18.32 per share a year ago.

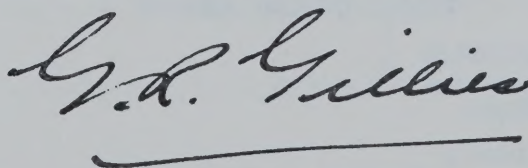
PLANT EXPANSION During the year ended December 31, 1968, \$1,842,280 was expended on machinery and equipment. Over the past two years \$2,833,000 has been expended on additional press, bindery and ancillary equipment out of a total of approximately \$3,800,000 authorized by the directors in 1966 for this programme which will be completed during the first half of 1969.

It is with deep regret that we record the deaths of Mr. J. H. Ratcliffe, C.B.E., and Mr. G. M. Graham, who were directors of your Company. Mr. Ratcliffe became a director in 1927 and at the time of his death on October 31, 1968 was Vice-President of the Company. Mr. Graham joined the Board of Directors in November, 1965 and was a director until his death on October 25, 1968. Both Mr. Ratcliffe and Mr. Graham participated actively in the affairs of your Company and their advice and assistance will be greatly missed.

These gentlemen were succeeded on the Board by Mr. J. S. Dinnick and Mr. J. R. Shaw. Mr. Dinnick is President of McLeod, Young, Weir & Company Limited. Mr. Shaw, formerly General Manager of our Rotogravure Division, was elected Vice-President of the Company in November, 1968.

Your directors extend sincere appreciation to all employees who through their loyalty and efficiency throughout the year contributed so much to the high standards of quality and service to our customers.

On behalf of the Board,

A handwritten signature in dark ink, appearing to read "G. R. Gillies", with a horizontal line drawn underneath it.

Toronto, Canada,
January 28, 1969.

President.

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ASSETS

	1968	1967
CURRENT:		
Cash - - - - -	\$ 66,532	\$ 58,106
Investments at cost which approximates market value (note 1) - - - -	143,625	143,625
Accounts receivable - - - - -	202,240	133,064
Note receivable - - - - -		85,800
Portion of notes due within one year under Employees' Stock Purchase Agreements (note 3) - - - - -	14,391	14,391
Inventories of work-in-process and materials at cost less progress payments received - - - - -	493,750	466,465
Prepaid expenses including in 1968 special refundable tax - - - - -	26,884	4,612
TOTAL CURRENT ASSETS - - - - -	947,422	906,063
CAPITAL—at cost:		
Land - - - - -	57,486	57,486
Buildings - - - - -	1,961,167	1,940,872
Machinery and equipment (note 2) - - - - -	7,459,053	4,681,331
	9,477,706	6,679,689
Less accumulated depreciation - - - - -	3,739,622	3,385,976
	5,738,084	3,293,713
Progress payments on equipment under manufacture - - - - -		962,202
NET CAPITAL ASSETS - - - - -	5,738,084	4,255,915
OTHER:		
Notes due under Employees' Stock Purchase Agreements—non current portion (note 3) - - - - -	100,737	115,128
Special refundable tax - - - - -		25,260
TOTAL OTHER ASSETS - - - - -	100,737	140,388
	\$6,786,243	\$5,302,366

On behalf of the Board:

G. R. GILLIES }
J. R. SHAW } *Directors*

(See accompanying notes

ELECTROTYPERS LIMITED

(In accordance with the laws of Canada)

BALANCE SHEET

As at December 31, 1968

(Audited at December 31, 1967)

LIABILITIES

	1968	1967
CURRENT:		
Bank loan (note 2) - - - - -	\$ 750,000	
Accounts payable and accrued charges - - - - -	466,556	\$ 319,217
Income and other taxes payable - - - - -	164,110	342,058
Term bank loan due within one year (note 2) - - - - -	178,000	
	<u>1,558,666</u>	<u>661,275</u>
5¼% FIRST MORTGAGE SINKING FUND BONDS (redeemed in 1968) - - - - -		<u>250,000</u>
TERM BANK LOAN (note 2) - - - - -	<u>712,000</u>	<u>255,000</u>
DEFERRED INCOME TAXES - - - - -	<u>1,156,000</u>	<u>930,000</u>
TOTAL LIABILITIES - - - - -	<u>3,426,666</u>	<u>2,096,275</u>
 SHAREHOLDERS' EQUITY:		
Capital stock—		
Authorized: 250,000 shares, no par value		
Issued: 175,000 shares - - - - -	781,504	781,504
Earnings employed in the business - - - - -	2,578,073	2,424,587
TOTAL SHAREHOLDERS' EQUITY - - - - -	<u>3,359,577</u>	<u>3,206,091</u>
	<u>\$6,786,243</u>	<u>\$5,302,366</u>

(See financial statements)

PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

Statement of Earnings and Earnings Employed in the Business

For the Year ended December 31, 1968

(with comparative figures for the year 1967)

	1968	1967
SALES - - - - -	\$6,495,118	\$5,960,022
COST OF SALES and all expenses, except the items noted below: - - - -	5,393,972	5,022,738
Provision for depreciation - - - - -	360,111	327,032
Directors' remuneration (note 5) - - - - -	50,216	41,000
Interest expense on long term debt (including term bank loan) - - - -	58,222	25,675
Interest expense on current bank loan - - - - -	32,669	
Interest income - - - - -	(8,258)	(21,063)
	5,886,932	5,395,382
EARNINGS BEFORE PROVISION FOR INCOME TAXES - - - - -	608,186	564,640
Provision for income taxes including deferred portion of \$226,000 (1967—\$80,000) - - - - -	314,700	282,500
NET EARNINGS FOR YEAR - - - - -	293,486	282,140
Less dividends paid - - - - -	140,000	140,000
BALANCE OF YEAR'S EARNINGS - - - - -	153,486	142,140
EARNINGS EMPLOYED IN BUSINESS AT BEGINNING OF YEAR -	2,424,587	2,282,447
EARNINGS EMPLOYED IN BUSINESS AT END OF YEAR - - - -	\$2,578,073	\$2,424,587

(See accompanying notes to financial statements)

PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

Statement of Source and Application of Funds

For the Year ended December 31, 1968

(with comparative figures for the year 1967)

	1968	1967
SOURCE OF FUNDS:		
Earnings for the year - - - - -	\$ 293,486	\$ 282,140
Charges not involving a current outlay of funds—		
Depreciation - - - - -	360,111	327,032
Deferred income taxes - - - - -	226,000	80,000
FUNDS FROM OPERATIONS - - - - -	879,597	689,172
Increase in term bank loan - - - - -	457,000	255,000
Increase in current portions of—		
Note receivable - - - - -		85,800
Notes due under Employees' Stock Purchase Agreements - - - - -	14,391	28,782
Special refundable tax - - - - -	25,260	(8,215)
	<u>1,376,248</u>	<u>1,050,539</u>
APPLICATION OF FUNDS:		
Additional machinery and equipment - - - - -	1,842,280	1,179,882
Reduction in funded indebtedness - - - - -	250,000	250,000
Dividends - - - - -	140,000	140,000
	<u>2,232,280</u>	<u>1,569,882</u>
DECREASE IN WORKING CAPITAL - - - - -	(856,032)	(519,343)
WORKING CAPITAL, BEGINNING OF YEAR - - - - -	244,788	764,131
WORKING CAPITAL (DEFICIENCY) END OF YEAR - - - - -	<u>\$ (611,244)</u>	<u>\$ 244,788</u>

(See accompanying notes to financial statements)

PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

Notes to Financial Statements

December 31, 1968

1. INVESTMENTS

Investments consist of government guaranteed bonds.

2. MACHINERY AND EQUIPMENT, INCLUDING FINANCING THEREOF

Over the past two years \$2,833,000 has been expended on additional press, bindery and ancillary equipment out of a total of approximately \$3,800,000 authorized by the Directors in 1966 for this programme which will be completed during the first half of 1969.

Funds not available to meet these expenditures from operations are being financed by means of:

- (a) A term bank loan under which there is a maximum amount available of \$3,000,000 carrying interest at 8% per annum repayable over a five year period commencing in 1969.
- (b) A loan on a revolving credit basis under which the bank has made available to the Company a maximum amount of \$750,000 at a lower rate of interest.

The Company has undertaken not to pledge or otherwise encumber any of its assets while any portion of the term bank loan is outstanding.

3. NOTES DUE UNDER EMPLOYEES' STOCK PURCHASE AGREEMENTS

These represent the amounts due under promissory notes made in 1967 by a director and senior management in favour of the Company in connection with the purchase of shares of the Company under its stock purchase plan. These promissory notes are payable in ten equal annual instalments.

4. PENSION PLANS

All the Company's employees are covered by the Canada Pension Plan and the majority by various union or Company administered retirement plans. The amount charged to income (including amounts paid to government pension plan) was \$88,600 in 1968 and \$74,700 in 1967 which amounts included amortization of prior service costs. The unfunded past service pension costs at December 31, 1968 were approximately \$152,700 and these will be charged to operations over the next twelve years.

5. DIRECTORS' REMUNERATION

Remuneration paid to the Company's directors includes amounts paid to directors holding salaried employment. Direct remuneration of directors and senior officers, as defined under The Securities Act, 1966 of Ontario, amounted to \$142,100 in 1968 and \$128,500 in 1967.

Auditors' Report

To the Shareholders of
PHOTO ENGRAVERS & ELECTROTYPERS LIMITED:

We have examined the balance sheet of Photo Engravers & Electrotypers Limited as at December 31, 1968 and the statements of earnings, earnings employed in the business and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1968 and the results of its operations and the source and application of funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada,
January 17, 1969.

CLARKSON, GORDON & Co.
Chartered Accountants

PHOTO ENGRAVERS & ELECTROTYPERS LIMITED

Ten Years' Review

Earnings

Year	Sales	Provision for Depreciation	Earnings Before Income Taxes	Net Earnings	Net Earnings Per Share	Dividends Per Share
1959	\$5,244,589	\$247,627	\$488,535	\$235,535	\$1.45	\$.70
1960	5,386,530	253,825	404,227	201,227	1.24	.80
1961	5,710,498	253,605	455,619	224,119	1.37	.80
1962	5,630,736	251,739	417,956	208,956	1.28	.80
1963	5,895,215	256,456	486,993	240,493	1.46	.80
1964	6,147,623	253,368	457,148	227,148	1.38	.80
1965	4,796,848	242,090	433,793	220,093	1.34	.80
1966	5,323,927	305,789	501,770	254,270	1.55	.80
1967	5,960,022	327,032	564,640	282,140	1.61	.80
1968	6,495,118	360,111	608,186	293,486	1.68	.80

Balance Sheet

Year	Working Capital (Deficiency)	Plant and Equipment at Cost	Plant and Equipment After Depreciation	Funded Long Term Debt	Term Bank Loan	Shareholders' Equity	Shareholders' Equity Per Share
1959	\$1,244,282	\$5,219,895	\$3,301,208	\$2,019,000		\$2,133,118	\$13.14
1960	1,274,845	5,441,294	3,202,818	2,000,000		2,057,995	12.63
1961	1,335,917	5,502,145	3,026,119	1,750,000		2,180,052	13.34
1962	1,357,477	5,560,655	2,837,513	1,500,000		2,264,759	13.82
1963	1,336,540	5,689,024	2,719,722	1,250,000		2,382,778	14.50
1964	922,983	5,329,854	2,735,802	1,000,000		2,496,185	15.19
1965	643,667	5,999,022	3,170,037	750,000		2,625,304	15.97
1966	764,131	6,535,191	3,403,065	500,000		2,920,041	17.77
1967	244,788	7,641,891	4,255,915	250,000	\$255,000	3,206,091	18.32
1968	(611,244)	9,477,706	5,738,084		712,000	3,359,577	19.20

